



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

JUN - 5 2002

REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

CIN: A-04-01-01012

Mr. Charles Ayscue
Senior Vice President and Chief Financial Officer
University of North Carolina Hospitals
101 Manning Drive
Suite 6011, East Wing
Chapel Hill, North Carolina 27514

Dear Mr. Ayscue:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled *Audit of Graduate Medical Education Costs at the University of North Carolina Hospitals, Chapel Hill, North Carolina*. Should you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS official named below.

In accordance with the principles of the Freedom of Information Act (5 United States Code 522, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (see 45 Code of Federal Regulations Part 5). As such, within 10 business days after the final report is issued, it will be posted on the World Wide Web at <http://www.hhs.gov/progorg/oig>.

To facilitate identification, please refer to Common Identification Number (CIN): A-04-01-01012 in all correspondence relating to this report.

Sincerely yours,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures – as stated

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HHS Action Official

Dale Kendrick

Associate Regional Administrator,

Centers for Medicare & Medicaid Services

Division of Financial Management and Program Initiatives

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF
GRADUATE MEDICAL EDUCATION
COSTS AT UNIVERSITY OF NORTH
CAROLINA HOSPITALS
CHAPEL HILL, NORTH CAROLINA**



**JANET REHNQUIST
INSPECTOR GENERAL**

**JUNE 2002
A-04-01-01012**



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Mr. Charles Ayscue
Senior Vice President and Chief Financial Officer
University of North Carolina Hospitals
101 Manning Drive
Suite 6011, East Wing
Chapel Hill, North Carolina 27514

Dear Mr. Ayscue:

This report provides you with the results of an Office of Inspector General, Office of Audit Services' *Audit of Graduate Medical Education Costs at the University of North Carolina Hospitals, Chapel Hill, North Carolina*. The objective of our review was to determine the accuracy of intern and resident full-time equivalents (FTE) used by the University of North Carolina Hospitals (UNCH) for calculating direct graduate medical education (GME) and indirect graduate medical education (IME) reimbursement in their 2000 Medicare cost report.

Our audit covered UNCH's FTE count from July 1, 1999 to June 30, 2000 (Fiscal Year (FY) 2000). UNCH reported to Medicare 364.73 weighted GME FTEs and 389.80 IME FTEs, which resulted in a graduate medical education claim of approximately \$28.3 million. Our review indicated that the FTE counts were materially correct and that UNCH's controls over the accumulation and computation of FTEs appeared to be adequate. Therefore, this report contains no recommendations for the UNCH to address. UNCH officials concurred with our assessment; their response to our draft report is included as an Appendix to this report.

INTRODUCTION

BACKGROUND

The UNCH at Chapel Hill is the primary teaching hospital for the University of North Carolina School of Medicine. The UNCH is a public, academic medical center with 4 hospitals and approximately 1,500 faculty physicians and physicians-in-training who provide health care to the residents of North Carolina and several surrounding states. The UNCH claimed total Medicare reimbursement of \$109,224,274 in FY 2000, of which \$28,276,845 was for graduate medical education.

Since the inception of Medicare in 1965, the program has shared in the costs of educational activities incurred by participating providers. Medicare reimburses medical education separately for GME and IME and the reimbursement calculations are different.

The GME reimbursement is to cover direct costs of operating an approved physician resident training program such as the salaries and fringe benefits of the residents, expenses paid to teaching physicians for direct teaching activities, and overhead expenses related to the program. Hospitals are paid for direct GME based on Medicare's share of a hospital-specific per resident amount multiplied by the number of FTE residents. Under Sections 1886 (a)(4) and (d)(1)(A) of the Social Security Act (the Act) and 42 Code of Federal Regulations 412.113, GME costs are excluded from the definition of a hospital's operating costs and, accordingly, are not included in the calculation of payment rates under the hospital inpatient prospective payment system (PPS) or in the calculation of the rate-of-increase limit for hospitals excluded from the PPS.

The IME covers increased operating costs that cannot be specifically matched with the graduate medical education program such as the costs of extensive medical libraries, the costs of more detailed medical records, and the costs associated with the additional tests that may be ordered by residents which would not be ordered by more experience physicians. The IME is an add-on to a hospital's Diagnosis Related Group payment. In other words, the greater the number of Medicare patients, the higher the IME payments. The IME formula is designed to reimburse a hospital for its increased patient care costs and its calculation uses the resident-to-hospital bed ratio. Section 1886(d)(5)(B) of the Act authorized IME payments to hospitals.

Both GME and IME payments are calculated annually based on formulas that are driven by the number of FTEs and the proportion of Medicare days of care. Thus, the amount of Medicare funds received by each hospital is determined, in large part; by the number of FTE residents at each hospital and the proportion of training time residents spend in the institution.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine the accuracy of the FTE count used by the UNCH to claim GME and IME reimbursement in their 2000 Medicare cost report. Our audit was conducted in accordance with generally accepted government auditing standards.

To accomplish our audit objective, we identified the residents who were included in UNCH's FTE count in FY 2000 and reconciled the FTEs reported on the cost report, Worksheet E-3 Part IV and Worksheet E, Part A to supporting documentation. Rotation schedules prepared by the UNCH reimbursement department and assignment sheets prepared by the different departments within the school of medicine were presented to support the 2000 FTE count. For the residents on the rotation and assignment schedules, we verified:

- participation in an approved medical residency program as defined by the Accreditation Council of Graduate Medical Education or the American Dental Association;

- length of the initial residency period per medical specialty and the FTE weight for residents who exceeded the initial residency period;
- classifications for primary care and specialty residency programs;
- foreign medical graduate eligibility (if applicable); and
- time spent in allowable areas and activities such as time in research related to patient care, rotations to PPS areas of the UNCH, and time spent in approved non-hospital settings.

Our review of the internal controls was limited to the controls concerning the accumulation of FTEs reported to Medicare on the cost report. This was accomplished through interviews and testing pertaining exclusively to the GME and IME FTE count. We limited the scope of our review of internal controls because our audit objective did not require a full assessment or understanding of the UNCH's internal control structure. We obtained UNCH's comments on the draft report. UNCH officials concurred with our assessment; their response is included as an Appendix to this report.

In addition, UNCH officials indicated that they inadvertently omitted the FTEs of residents involved in research activities from the FTE count in their FY 2000 cost report. The officials planned to submit an amended cost report to correct this omission. However, at the time of our site work, amendments to the cost report had not been filed with the fiscal intermediary and thus, we did not consider this matter during our review. In response to our draft report, UNCH officials reiterated their intention to file an amended cost report to include the FTEs of residents involved in research activities.

Fieldwork was performed at the UNCH in Chapel Hill, North Carolina and at the OAS field office in Miami, Florida from July 2001 through April 2002.

RESULTS OF REVIEW

Our audit indicated that the FTE counts were materially correct and UNCH's controls over the accumulation and computation of FTEs appeared to be adequate. The UNCH claimed total Medicare reimbursement of \$109,224,274 in their FY 2000 cost report. Of the nearly \$109.2 million in total reimbursement, \$28,276,845 was for graduate medical education. The UNCH reported to Medicare 364.73 weighted GME FTEs and 389.80 IME FTEs, which resulted in a request for reimbursement of \$9,150,489 and \$19,126,356 respectively.

The UNCH adequately documented the time its residents spent in medical training activities and properly applied Federal criteria pertaining to the FTE count for Medicare reimbursement purposes. Therefore, we are not making recommendations to the UNCH at this time.

* * * * *

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Sincerely yours,



Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosure

CMS Action Official:

Mr. Dale Kendrick
Associate Regional Administrator
Division of Financial Management and
Program Initiatives
Centers for Medicare & Medicaid Services



May 20, 2002

VIA FEDERAL EXPRESS

Mr. Charles J. Curtis
Regional Inspector General for Audit Services, Region IV
Department of Health & Human Services
Room 3T41
61 Forsyth Street, S.W.
Atlanta, GA 30303-8909

RECEIVED
MAY 21 2002
Office of Audit Svcs.

**RE: Audit of Graduate Medical Education Costs at the University of North Carolina Hospitals,
 Chapel Hill, North Carolina
 CIN: A-04-01-01012**

Dear Mr. Curtis,

We have reviewed your draft report presenting the results of your *Audit of Graduate Medical Education Costs at the University of North Carolina, Chapel Hill, North Carolina*. The objective of your review was to determine the accuracy of intern and resident full-time equivalents (FTE) used by the University of North Carolina Hospitals for calculating direct graduate medical education and indirect medical education reimbursement in our fiscal year 2000 Medicare Cost Report.

We acknowledge that your review indicated that the FTE counts are materially correct and that the Hospitals' controls over the accumulation and computation of FTEs appeared to be adequate. As indicated in your draft report, there are no recommendations for the Hospitals to address.

Your report indicates that the Hospitals claimed total Medicare reimbursement of \$109,224,274 in FY 2000. We wish to emphasize that this represents reimbursement related to inpatient services paid under the prospective payment system and outpatient services paid under various fee schedules and/or blended cost reimbursement. This amount excludes Medicare reimbursement related to Medicare Part A services paid under TEFRA, home health agencies and renal dialysis department services.

We have not submitted, as of today's date, an amended cost report to correct the inadvertent omission of resident FTEs involved in research activities from the FTE count in our FY 2000 cost report. It is still our intention to do so.

We anticipate the issuance of your final audit report. If you have any questions, please contact me at 919-966-1727 or Joseph Baker, Director of Reimbursement, at 919-966-5186.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles F. Ayscue".

Charles F. Ayscue
Senior Vice President and Chief Financial Officer